

Appendix C: General Q & A

Western Climate Initiative

Q: What is the Western Climate Initiative announcing today?

The Western Climate Initiative (WCI) Partners today announced their proposed design of a regional market-based cap-and-trade program. This program is an important component of a comprehensive regional effort to reduce the pollution that causes global warming to 15 percent below 2005 levels by 2020.

Q: What are the market design elements being released by the WCI?

The WCI partners are recommending a multi-sector cap-and-trade program to reduce the pollution that causes global warming to 15% below 2005 levels by 2020. This program includes the following design parameters:

- A limit on the emissions from all major sources of global warming pollutants;
- Include under the cap all electricity-related emissions, including those associated with electricity imported from outside the WCI partner jurisdictions;
- Ensure that all regulated entities use a consistent reporting methodology; and
- Mitigate economic impacts on consumers and regulated entities by allowing flexibility in how and when the reductions are made (e.g., banking of allowances and the limited use of offsets).

Q: How was the WCI market design developed?

The release of the WCI design recommendations is the culmination of 18 months of extensive analysis, stakeholder consultation and deliberation by the WCI Partners. We will continue to consult with and seek input from the broad range of stakeholders who contributed to this process.

Q: What are the next steps?

The release of this market design program marks the culmination of 18 months of extensive analysis, stakeholder consultation and deliberation by the WCI Partners. This proposal will now be further developed by each WCI Partner with the objective of taking the steps necessary to implement the program.

The timeline agreed to by the WCI Partners is that each will begin reporting emissions in 2011 for emissions that occur in 2010. The first phase of the cap-and-trade program will begin on January 1, 2012, with a three-year compliance period. The second phase will begin in 2015, when the program is expanded to include transportation fuels and residential, commercial and industrial fuels.

Q: What emissions sources are subject to the cap under the WCI agreement?

The WCI cap-and-trade program covers the largest emitters from each state and province, including energy (electricity generation, natural gas and heating fuels), industrial emissions and transportation emissions.

Q: How will emissions allowances be distributed under the WCI agreement?

Each WCI Partner jurisdiction will have an emission allowance budget under the cap-and-trade program that is consistent with its jurisdiction-specific emissions goal for 2020. Each Partner has the flexibility to decide how best to allocate its allowance budget within its jurisdiction.

For instance, a Partner could “give” allowances to the emitters operating within its jurisdiction, “auction” the allowances to willing buyers, or provide for some combination of the two. The WCI design calls for a minimum auction level of 10% at the start of the program, increasing to at least 25% by 2020. Each jurisdiction may auction a higher percentage if it so chooses. In addition, the WCI Partners have agreed to use a portion of the allowance value for purposes with region-wide benefits, such as energy efficiency and low-carbon technology development.

Q: How will compliance be determined under the WCI agreement?

The bedrock of a cap-and-trade system is a rigorous emissions reporting requirement. The regulated sources are required to ensure the data are accurate and complete. Each WCI partner will require third party validation of reported emissions from entities and facilities that will be included under the cap.

The WCI agreement is consistent with previous well-designed cap-and-trade programs that have had compliance rates of over 99 percent. At the end of each compliance period, facilities and entities with emissions are required to submit the same number of emission allowances to the government as the emissions they had during that compliance period. If the facility or entity does not have sufficient emission allowances to cover its emissions, a “penalty” of three allowances will be assessed for each one they are short.

Q: What are offsets? How are they handled under the WCI agreement?

Offsets are reductions in greenhouse gas emissions from outside of the capped sectors, such as forestry and agriculture. Offset credits may be used, provided they meet rigorous criteria to ensure that emission reductions are real, verifiable, surplus/additional, permanent and enforceable. Offset credits may be traded. The WCI program limits the use of offsets for compliance purposes to ensure that a majority of the required emission reductions is achieved in the sources covered by the cap-and-trade program.